



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

Committee on Public Safety and Security

Testimony of Robert L. Genuario,

Secretary, Office of Policy and Management

Concerning Keno

March 2, 2010

As this committee knows only too well, the state of Connecticut is experiencing a multi-year budget crisis that shows no signs of abating anytime soon. The state finished the last fiscal year more than \$900 million in deficit, which required the issuance of bonds to cover that shortfall. In other words, we borrowed to pay current expenses and now have to pay debt service on those bonds as part of our operating budget for the next several years.

In the current fiscal year, our projection is that expenditures will outpace revenue by more than \$500 million. For next year, the looming deficit is on the order of \$700 million, even after all steps are taken to provide for the budgeted revenue for that fiscal year. Yesterday the Governor announced a deficit mitigation plan that, if enacted in full, would take care of the deficits for this year and next.

This brings us to the issue of "securitization". In order to balance next year's budget, not only do we need to undertake the mitigation efforts concerning the projected \$700 million problem for next year, we also have to finish the job of providing for the underlying revenue assumptions that supported the enactment of next year's budget in the first place.

The enacted state budget for the fiscal year that starts this coming July 1 includes projected revenue of \$1.3 billion attributable to a proposed "securitization" plan. Under the terms of the budget act, the State Treasurer and the Secretary of the Office of Policy and Management were directed to jointly develop a financing plan to generate net proceeds in that amount for Fiscal Year 2011. In accordance with that directive, State Treasurer Denise L. Nappier and I convened a working group to consider a number of financing approaches. That effort resulted in a report, delivered to the legislature on February 3, 2010, that sets forth a number of options.

Let me be clear: the \$1.3 billion that this plan provides for is necessary just to cover the revenue assumed in the enacted budget. Even with this \$1.3 billion, we still need to mitigate another \$700 million in deficit for next year, which the Governor's plan announced yesterday is designed to do. Failure to provide for the securitization amount would create an additional deficit beyond that which we are currently projecting.

The financing plan set out to identify options and did so according to principles agreed upon by the working group. These included: Minimize any negative impact on the State's credit rating and/or financial outlook; minimize or avoid securitization of current general fund revenue streams to avoid further structural imbalances going forward; any securitization of current revenues should primarily focus on non-general fund revenues; consider options that are cost-effective and avoid or minimize the impact on general fund revenues and cash flows; consider replacing non-general fund special taxes scheduled to expire in a manner that will not increase or absorb all of such taxes; and provide for the sale and/or lease of major assets as an alternative or in addition to securitization.

The group identified two options that meet those principles. One of those options, to be discussed outside this committee, involves "rate reduction bonds" that would utilize the extra charges on utility ratepayers, which funds are currently used for energy conservation measures. The merits of that option will continue to be debated elsewhere.

The purpose of today's hearing is to discuss the other preferred option, that of Lottery Revenue bonds backed by expanded lottery revenues. Lottery revenues may be able to be expanded by the Connecticut Lottery Corporation using a new Keno game. Estimates are that the new Keno game could generate \$60 million in additional revenue once the game is fully implemented. Rather than treating the new Keno proceeds as general revenues, proceeds from this financing could be used to fund debt service due on general obligation bonds during the remainder of the 2011 fiscal year. Financing could be executed for up to \$400 million in a one-time lump sum to defray the cost of the state budget for FY '11, using the \$60 million revenue for annual debt service thereafter until the bonds are paid off. Once that occurs, the revenue would become available for the General Fund or any other use to which the General Assembly decides to make of it.

With regard to the compacts with the tribal nations, OPM agrees with the Division of Special Revenue in its assessment that the state's operation of Keno is permissible under Connecticut law as well as under the compacts. Keno is a lottery game and conforms to the definition of a lottery in the compacts.

What is prohibited by the memoranda of understanding between the state and the tribes is any change in state law to permit the operation of "commercial casino games by any other person". At the time the compacts were entered into, the state's former "Las Vegas Nights" law allowed some such games to be conducted and it was those operations that were at issue. That law never listed Keno as a casino game.

While we are confident that Keno is a lottery game under Connecticut law and the compacts with the tribal nations here, we agree with the Attorney General that any introduction of Keno by the state should be preceded by meaningful discussions with the tribes. We have begun preliminary discussions and intend to continue such discussions with a view to resolving any disputes related to the state's Keno initiative.

It should be noted that the surrounding states of New York, Massachusetts and Rhode Island operate Keno under the authority of their state lottery operations. In addition, nine other states operate Keno games.

We are mindful of the issue of problem gambling and the effect that introduction of Keno may have on that problem. Let me outline the state's efforts in this area. Funding for the chronic gamblers treatment and rehabilitation account in DMHAS increased last year from \$1.5 million to \$1.9 million. Of this, DMHAS is required to give at least 5% of the specified amount to the Connecticut Council on Problem Gambling and 25% to fund prevention activities. Specifically, the state budget currently funds:

- Problem Gambling Helpline Services available 24/7 with plans to expand to internet based help and referral as well as brief online interventions
- Counseling for problem gamblers and their families throughout the state at 15 outpatient locations and one brief inpatient respite care location. Services provided through contracts with community based non-profit organizations
- Community based prevention, education and awareness services throughout the state. Work through community partners to provide campus based prevention and awareness programs. Also provide school based prevention and education programs designed to be integrated with substance use and other risky behavior prevention programs.
- Programs to integrate problem gambling into existing substance use disorder and mental health programs using a co-occurring disorders model.
- Programs to develop outreach and intervention services for bilingual and multicultural populations that have been underserved by our programs in the past.
- Problem gambling education and training opportunities for health care and social service professionals throughout the state.

A detailed budget is attached to this testimony.

Thank you for your attention and I am happy to try to answer any questions that you may have.

SFY10 Compulsive Gambling Budget
As of February 3, 2010

PROJECTED EXPENDITURES

PNP Contracts

**SFY10
Budgeted**

Bettor Choice Contracts:

MCCA	\$	338,200
Wheeler Clinic	\$	189,000
UCFS	\$	282,953
Connection	\$	564,000
Bettor Choice Contracts TOTAL	\$	1,374,153

CCAR-Enhanced Recovery Services	\$	20,000
---------------------------------	----	--------

TOTAL PNP \$ 1,394,153

RAC PSA Contracts:

Southeastern Regional Action Council (SERAC) (7/1-6/30/10)	\$	37,500
East of the River Action SA (ERASE) (7/1-6/30/10)	\$	6,000
Birmingham (VSAAC) (7/1-6/30/10)	\$	16,000
Meriden/Wallingford SA Council (7/1-6/30/10)	\$	62,000
Regional Youth Adult SA Project (RYSAP) (7/1-6/30/10)	\$	25,000
Family Intervention Center (CNVRAC) (7/1-6/30/10)	\$	4,000
CASAC	\$	4,500
Liberation (LFCRAC) (7/1-6/30/10)	\$	27,000
RAC PSA TOTAL	\$	182,000

CT Council on Problem Gambling (CCPG)

Helpline (7/1-6/30/10)	\$	120,000
Internet and Web based services (amended to 12/31/10)	\$	30,000
CCPG PSA TOTAL	\$	150,000

PSA TOTAL \$ 332,000

PERSONNEL TOTAL \$ 497,095

OE TOTAL \$ 50,000

PROJECTED EXPENDITURES FOR SFY10 TOTAL \$ 2,273,248

PROJECTED INCOME:

**SFY10
Budgeted**

CT Lottery Corporation	\$	1,900,000
DMHAS Funding (SID 10020)	\$	50,000
Pari-Mutuels (Division of Special Revenue)	\$	120,000
Carry Forward from previous year	\$	262,011
TOTAL	\$	2,332,011

Surplus/(Deficit) \$ 58,763 Proj Carry Fwd to FY '11